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January 30, 2023

**Statement by Ms. Medearis and Mr. Sturm on West African Economic and Monetary Union  
(Preliminary)  
Executive Board Meeting  
February 1, 2023**

We thank staff for their comprehensive reports and we also thank Mr. Sylla, Mr. Matungulu, and Mr. Tall for their informative Buff statement. Spillovers from Russia's war against Ukraine and regional security issues have presented new policy challenges, including a weakened external position and rising inflation. In addition, the regional authorities have delayed important policy reforms in the challenging current global environment. Nonetheless, growth prospects remain high and regional economies continue to demonstrate resilience despite multiple shocks. We encourage the authorities to stay the course on their fiscal convergence plans and deepen structural reforms amid elevated downside risks and high uncertainty. **We broadly agree with staff's appraisal and recommendations and offer the following comments for emphasis.**

**We strongly concur with staff's fiscal policy recommendations, including the importance of a credible regional fiscal anchor and the need for revenue-enhancing measures.** We note with concern that significant extra-budgetary and below-the-line operations, as well as domestic wage bill pressures in some countries, have increased debt vulnerabilities and undermined commitment to the WAEMU Convergence Pact. Staff make a convincing case for limiting delays in the convergence period and in revamping the anchor, including through the introduction of a fiscal correction mechanism. Staff rightly call attention to the significant deleterious consequences of loosening the fiscal or debt ceilings. In addition, we also agree with staff on the importance of including security spending in the regional fiscal deficit target to promote transparency and accountability. With the recent increase in debt and fiscal convergence in question, the authorities need to take decisive action and clearly communicate the revised fiscal anchor to support debt sustainability and external viability. We underscore the critical need to continue to raise domestic revenue mobilization to finance high medium-term expenditures on development, social, and health

as well as to reduce overreliance on debt financing. *We welcome an update from staff on the authorities' latest discussion on the regional fiscal anchor. Can staff provide an update on how BCEAO is handling interest rate risks from the SDR allocation?*

**With fiscal consolidation likely delayed and inflation rising, we support staff's call for tighter monetary policy.** We welcome that BCEAO has raised its benchmark policy rate three times in the second half of 2022. Staff rightly note, however, that inflation is likely to continue to rise and that risks are one sided, which calls for steadfast commitment to bring inflation back to BCEAO's target range. We specifically note the risks of second-round effects, including market expectations of inflation, which staff helpfully highlighted in the Selected Issues Paper. We commend BCEAO for implementing all the recommendations from its last Safeguards Assessment and we look forward to the results of a new assessment later this year.

**We welcome the resilience of WAEMU's financial system, but we encourage the authorities to make further progress to implement recommendations from the recent FSAP.** We note the substantial ongoing financial sector reform agenda in WAEMU, including a new resolution framework. We urge full operationalization of the framework, including decisive action where needed to address weak banks. We also urge the authorities to strengthen on-site supervision and enforcement of minimum capital requirements at banks. We commend the authorities for the significant financial inclusion gains during the pandemic, with the substantial increase of the population using financial services, and we encourage continued progress on this front. We fully support staff's recommendation for continued efforts to strengthen the AML/CFT risk-based supervisory program as recommended in the FSAP. We encourage the authorities to work toward a comprehensive strategy to address risks from climate change.

**Finally, we encourage the authorities to advance structural reforms at the national and regional levels, including on regional connectivity, trade, and infrastructure.** We welcome staff's continued attention to regional trade connectivity, including in last year's assessment of WAEMU's regional policies. We highlight that the Fund can strengthen its work on trade in regional groupings like WAEMU, as well as generally for LICs, where we would expect the gains from trade, including regional integration, to be substantial. *We welcome staff comment on how the Fund could provide greater support for LICs on trade policy and regional integration.* We would also expect the Fund to collaborate closely with the World Trade Organization and other partners to help WAEMU remove non-tariff barriers and introduce common documentation for customs procedures.